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INTERNATIONAL ECONOMIC COMPARISONS.

Summary of U.S. Economic Conditions

Recent economic data show positive and negative aspects of the U.S. economy. On the positive side is the rise in factory orders and retail sales, and on the negative side are the decline in industrial output, and the worsening of the trade deficit.

U.S. factory orders for durable and nondurable goods rose 2.9 percent in August after declining in July 1989, as reported by the U.S. Department of Commerce. Orders for both durable and nondurable goods increased in August by about $7.0 billion, totaling a seasonally adjusted $237.2 billion. Moreover, the U.S. Department of Commerce reported that retail sales grew 0.5 percent in September 1989 to $145.21 billion, after a gain of 0.7 percent in August. Analysts viewed the rise in factory orders and in retail sales as an indication of strong consumer confidence.

In contrast, industrial output fell 0.1 percent in September compared with that in August 1989, as reported by the Federal Reserve. Analysts were concerned that the manufacturing sector might be slowing down as a result of the slide in export sales which, in turn, might depress corporate profits and investment spending.

Moreover, the producer price index rose 0.9 percent in September 1989, largely because of a rise in auto and energy prices. This ignited fears of an inflationary bout. The price index has risen at a 5.1 percent annual rate since the start of the year, compared with a rise of 4.0 percent for all of 1988. In addition, the seasonally adjusted merchandise trade deficit widened sharply, climbing to $10.8 billion in August 1989, compared with $8.2 billion in July. If the trade deficit persists in growing in the coming months, some economists might conclude that the improvement in export performance resulting from the dollar's decline has run its course.

Economic Growth

The reported annualized rate of real economic growth for the second quarter of 1989 in the United States was revised downward to 2.5 from 2.7 percent. This compares with -1.0 percent growth in the United Kingdom, 0.6 percent in Canada, 2.0 percent in West Germany, and -3.1 percent in Japan. The latest available data indicate that the annualized rate of real growth for the first quarter of 1989 was 4.8 percent in France, and 3.0 percent in Italy.

Industrial Production

U.S. industrial production fell 0.1 percent in September 1989 after a rise of 0.3 percent in August. This decline was attributed to the manufacturing sector (a drop of 0.2 percent); declines were largest in the output of trucks, basic metals, and construction supplies. U.S. industrial production in September 1989 was, however, 2.7 percent higher than it was in September 1988.

Capacity utilization in manufacturing, mining, and utilities stood at 83.6 in September, down from 83.8 percent in August 1989.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending August 1989, Japan reported an increase of 6.0 percent, West Germany reported an increase of 2.1 percent; during the year ending July 1989, the United Kingdom reported a decrease of 0.5 percent, and Canada reported an increase of 1.1 percent. During the year ending June 1989, France reported an increase of 4.5 percent, and Italy reported an increase of 3.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose 0.2 percent from August to September 1989, and increased 4.3 percent in the year ending September 1989.

Consumer prices increased by 3.1 percent during the year ending September 1989 in West Germany, and by 6.6 percent in Italy. During the year ending August 1989, consumer prices increased 7.3 percent in the United Kingdom, 3.4 percent in France, 5.2 percent in Canada, and 2.6 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) climbed slightly to 5.2 percent in September from 5.1 percent in August 1989. The national statistical offices of West Germany reported a 7.8 percent unemployment rate in September 1989. Other countries reported the following rates in August: Italy, 16.6 percent; the United Kingdom, 6.1 percent; France, 9.5 percent and Japan 2.3 percent. For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.

Forecasts

Table 1 shows newly revised macroeconomic projections by four major forecasters for the U.S. economy for September 1989 to December 1990, and the simple average of these forecasts. The numbers represent percentage changes over the preceding quarterly period at annual rates except for unemployment, for which the average rates themselves are projected.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1989-90

Quarter	Data Resources Inc.	Merrill Lynch Economics Inc.	Wharton F.A. Inc.	UCLA Business Forecasting Project	Mean of 4 indicators and forecasts
GNP:[1]					
1989:					
September—October	5.9	5.9	6.0	4.5	5.6
October-December	4.5	6.1	6.4	2.7	4.9
1990:					
January-March	5.3	6.7	6.8	4.7	5.9
April-June	5.0	7.2	6.4	6.6	6.3
July-September	5.1	7.2	6.8	6.4	6.4
October-December	6.4	7.1	6.8	5.7	6.5
GNP:[2]					
1989:					
July-September	2.9	2.3	2.7	0.8	2.2
October-December	1.0	1.6	1.5	-1.1	0.7
1990:					
January-March	1.6	1.8	1.6	0.5	1.4
April-June	1.1	2.4	1.7	2.3	1.9
July-September	1.3	2.5	2.9	2.2	2.2
October-December	2.7	2.4	2.9	1.9	2.5
GNP deflator index:					
1989:					
July-September	2.9	3.5	3.2	3.7	3.3
October-December	3.5	4.4	4.9	3.9	4.2
1990:					
January-March	3.7	4.8	5.0	4.2	4.4
April-June	3.9	4.7	4.5	4.2	4.3
July-September	3.8	4.6	3.8	4.1	4.1
October-December	3.6	4.6	3.9	3.7	3.9
Unemployment, average rate:					
1989:					
July-September	5.2	5.2	5.2	5.2	5.2
October-December	5.2	5.3	5.3	5.4	5.3
1990:					
January-March	5.3	5.3	5.4	5.6	5.5
April-June	5.4	5.3	5.6	5.7	5.5
July-September	5.5	5.2	5.6	5.8	5.5
October-December	5.6	5.3	5.5	5.9	5.6

[1] Current dollars.
[2] Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data received by telephone from the Conference Board, *Statistical Bulletin*. Used with permission.

The average of all forecasts shows a slight slowdown in nominal and real GNP growth rates in the fourth quarter of 1989, followed by acceleration through 1990, and a slight increase in the unemployment rate throughout the period. Predictions of an economic slowdown are based, in part, on the following expectations: a deceleration in U.S. export growth in response to a stronger dollar; a softening in economic conditions abroad; and a buildup in inventories in the United States, which might dampen investment spending. The rate of inflation (measured by the GNP deflator index) is expected to quicken in the fourth quarter of 1989, and the first quarter of 1990, and then to moderate during the remainder of the year.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit rose in August 1989 to $10.8 billion from $8.2 billion in July. The August deficit was 16.1 percent higher than the $9.3 billion average monthly deficit registered during the previous 12-month period, and 6.9 percent higher than the $10.1 billion deficit registered in August 1988.

U.S. imports increased 6.5 percent in August to $41.2 billion from $38.7 billion in July. Exports declined slightly, to $30.4 billion in August from $30.5 billion in July.

By end-use categories, import increases occurred in nonfood consumer goods except automotive (up 1.3 percent from July), capital goods except automotive (up 14.0 percent), food, feeds, and beverages (up 9.7 percent), industrial supplies and materials (up 1.2 percent), and automotive vehicles, parts and engines (up 8.8 percent). Gains in exports were concentrated in automotive vehicles, parts and engines (up 19.6 percent). Exports of consumer goods remained virtually unchanged. Exports of capital goods, industrial supplies and materials, and food, feeds, and beverages registered declines.

Meanwhile, the U.S. agricultural trade surplus declined in August to $911 million from $1.3 billion in July. In addition, the U.S. oil import bill increased from $4.3 billion in July to $4.4 billion in August due to a rise in both volume and prices of imports.

The United States experienced slight decreases from July to August in its merchandise trade deficits with Japan and West Germany. The trade deficit increased with most other areas such as Canada (from $471 million to $1.2 billion), with newly industrialized countries (from $2.2 to $2.7 billion,) and with China (from $510 million to $580 million.) The U.S. deficit with the EC increased from $588 million to $773 million. The deficit with the OPEC countries increased from $1.7 billion to $1.9 billion.

INTERNATIONAL TRADE DEVELOPMENTS

Uruguay Round Proposals Being Submitted

Members of the General Agreement on Tariffs and Trade (GATT) are heeding the timetable set up by Director General Arthur Dunkel for the conclusion of the Uruguay Round. By December 1989, every government is to prepare its position with regard to the various issues in the multilateral trade talks. Several countries have filed their proposals in the appropriate negotiating groups, and other countries have submitted statements of their intent to clarify their position.

Nontariff measures:

The United States presented its proposal for a workplan on the harmonization of "rules of origin" (or local-content requirements) at the September 29 meeting of the Negotiating Group on Non-Tariff Measures. The U.S. position aims to help exporters by eliminating irregularities in the world trade system and make it more predictable. With rules of origin, it is costly and time consuming for firms to monitor each country's particular rules, thereby causing disruptions in the world trade system. Also, some countries change the rules or add new requirements, further disturbing international commerce. The United States argues that world trade would be less distorted if existing rules were harmonized and there was increased monitoring of the application of these rules.

The American proposition would compel the 96 nations of GATT to submit descriptions of the laws, judicial decisions, and administrative practices that determine the origin of products. If any countries anticipate changing the rules, they are to notify GATT at least 120 days before the modification is adopted. Along with the notification of change, the country must provide a summary of the products and countries the proposed change will affect plus an explanation of why the change is needed and its most likely impact on world trade. New principles proposed by the United States concerning these rules include consistency, transparency, and reviewability. Above all, the rules should state what accords origin as opposed to what does not and it should be readily understandable.

Initial reaction from the other GATT member countries has been favorable. A senior U.S. official declared that "it was one of the few times when a United States proposal was tabled in GATT and no one took the floor to attack the proposal."

Trade-related aspects of intellectual property

A possible deadlock may have been broken when India announced its acceptance of trade-related aspects of intellectual property rights (TRIP) being negotiated in the Uruguay Round. India had maintained that the World Intellectual Property Organization (WIPO) had responsibility over TRIPS, and not GATT. WIPO is the United Nations agency that traditionally enforces matters of copyright and counterfeit.

India warned, though, that enforcement of TRIPs measures "can easily be arbitrary or unjustifiable barriers to legitimate trade." With this in mind, India's proposal states that any agreement on TRIPs that emerges from the Uruguay Round should provide for both administrative and civil remedies for abuses, and where necessary, penalties under criminal law. "The principles of natural justice and fair play shall be observed in the enforcement procedure," the Indian proposal declared, and compensation should be provided to those who suffer damage from being wrongly accused of infringing intellectual property rights.

One other aspect of India's position is that each country's internal administration of these rights is not related to international trade and thus has nothing to do with GATT. India asserts that GATT should not become involved in national legislation on intellectual property rights.

Canada also tabled a proposal at the September 11–13 TRIPs meeting. National treatment, according to the Canadian proposal, should be the guideline for border measures that stop imports that infringe upon domestic trademarks and copyrights. However, international enforcement of rules on TRIPs should not be too heavy-handed lest it hurt companies wanting to export to other markets and thus negate the free-trade objective of the Uruguay Round.

An argument Canada presented at the meeting is that intellectual property owners who attempt

to find remedies against infringing imports "should not have options to initiate proceedings in judicial or administrative forums if comparable options do not exist for ... [such cases concerning] domestically produced goods and services." This line of reasoning apparently refers to the United States section 337 of the Tariff Act of 1930. This law allows the U.S. International Trade Commission to ban imports found to have infringed upon U.S. intellectual property, including U.S. patents. A GATT working panel found that this law violates national treatment. The U.S. administration has not yet agreed to the adoption of the GATT panel report.

Other elements of Canada's proposal include the following principles: (1) enforcement should be effective yet not hinder "legitimate trade"; (2) enforcement should be based on a most-favored nation/nondiscriminatory basis; (3) enforcement procedures should be fair, equitable, and transparent; (4) remedies should "effectively stop or prevent the infringement" of intellectual property and can take the form of civil penalties and sometimes criminal penalties in cases of repeated infringement of trademarks and copyrights; (5) interim procedures to allow customs services to detain goods that infringe upon trademarks and copyrights should be established; and (6) enforcement should be subject to GATT dispute settlement.

Services

New Zealand and Switzerland offered different proposals to the Services negotiating group on September 22, 1989. New Zealand's approach for a framework of services rules calls for an immediate agreement by all trading partners to obligations that would guarantee fair and equitable services trade. However, temporary exemptions for certain sectors could be negotiated.

The Swiss plan embodies a freeze for all countries at the current level of market access. Furthermore, the proposition asks that countries negotiate sectoral agreements in the future and provide information about their current rules governing services trade. Actual negotiations to ease restrictions in the services sectors would be held after the conclusion of the Uruguay Round either under the auspices of a newly formed General Agreement of Trade in Services (GATS) or in other organizations.

New Zealand hopes to achieve an expansion of trade through a process of progressive liberalization in services. In this manner, market access is not an "automatic right" in covered sectors. A country may treat foreign and domestic providers alike without giving the foreign country market access. For example, a country that has a monopoly running a service would not have to allow a foreign provider access to the market if domestic private firms are not allowed access. In addition, the New Zealand proposition would allow a nation to protect its domestic service providers with a number of measures, such as a service surcharge, under certain conditions.

In contrast, Switzerland's plan offers a step-by-step approach to allow gradual, successive coverage of service sectors under the substantive rules negotiated in the Uruguay Round. Countries could limit concessions to a certain number of trading partners under a principle called "qualified" most- favored-nation treatment.

The United States plans to unveil its approach to services in the October meeting of the Negotiating Group on Services. Reportedly, the U.S. approach favors the identification of covered services, either by a common list of sectors or by a variety of country-specific sectoral lists. Richard Self, the chief services negotiator of the Office of the United States Trade Representative characterized the services trade negotiations as "without a doubt, the most complicated" of the entire round.

Trade-related investment measures

Despite its middle-of-the road proposal in the TRIPs negotiating committee, India has refused to accept GATT's role in trade-related investment measures (TRIMs). In its proposal, India argues that the Uruguay Round does not have the mandate to prohibit TRIMs, rather the round can only address their adverse effects. The TRIMs group is trying to develop rules that would prohibit certain international investment practices that have adverse trade-effects on GATT trading partners.

In India's paper, it identifies seven investment measures that have trade-distorting effects but benefit the developing countries. At the heart of India's September 14, 1989, submission was the protection of the TRIMs imposed by developing countries. The seven TRIMs discussed in India's proposal were local equity requirements, remittance restrictions, exchange restrictions, investment incentives, manufacturing limitations, technology transfer restrictions, and licensing requirements. The Indian proposal stressed that it is "imperative" that the TRIMs group deal with the "restrictive and anti-competitive business practices followed by foreign investors and technology suppliers."

Japan also submitted a recommendation to the TRIMs group. The Japanese proposal specified seven TRIMs that should be prohibited: (1) local content requirements, (2) export performance requirements, (3) trade balancing requirements, (4) domestic sales requirements, (5) technology transfer requirements, (6) manufacturing requirements, and (7) product mandating requirements. Japan's proposal is seen as being close to the positions of both the United States and Switzerland.

Protectionist EC Directive on Broadcasting Angers United States

U.S. concerns that the European Community (EC) would try to limit the broadcast of American television programs in Europe were confirmed on October 3 when EC ministers approved the so-called Broadcasting Directive. This much-delayed directive permits frontier-free broadcasting but requires "where practicable" a majority of EC-produced programs.

The Broadcasting Directive was originally proposed back in 1986 as part of the EC's program to complete its internal market by 1992. However, strong language establishing a 60-percent minimum EC content for programming stirred opposition from a block of EC countries. A breakthrough occurred earlier this year when the 60-percent provision was replaced by a vaguer rule calling for merely a majority of EC content where practicable. Support for the directive grew, and ministers developed a "common position" on the road to formal approval. However, a new blocking minority of countries appeared and final adoption of the directive, expected at a meeting in June, was delayed until October 3.

In addition to the content rule, the Broadcasting Directive—also known as the directive on "Television Without Frontiers"—limits the amount of advertising during broadcasts; sets guidelines to protect children from improper influences, such as pornography and excessive violence; sets standards for alcoholic-beverage advertising; and bans advertisements for tobacco products and prescription medicines. Although member-state support for the directive wavered in response to these provisions as well as the programming quota, U.S. concerns focused on the latter. The newly adopted directive states that "the member states shall insure where practicable and by appropriate means that broadcasters reserve for European works" a majority of their transmission time, excluding news, sports, game shows, advertisements, and teletext. Non-EC European nations receive preferential treatment. The U.S. administration claims that the directive violates the General Agreement on Tariffs and Trade (GATT), but the EC has responded that television services are not currently covered by GATT rules. Furthermore, EC officials argue that the quota represents only a political commitment and not a legally binding requirement; therefore, failure to fulfill the quota would not be sufficient to bring a member state to court.

The U.S. entertainment industry has strongly criticized the directive as a barrier to U.S. exports of movies and television programs. Motion picture studios are concerned that although the quota is not mandatory, it sets a dangerous precedent and by its very existence encourages enforcement. Industry officials are worried that countries will be encouraged to follow the example of hardline nations, such as France and the United Kingdom, which already place strict limits on the number of non-EC produced programs that may be transmitted. Furthermore, they particularly fear that the local content requirement could be extended to video sales and films shown in theatres.

Moreover, U.S. industry is concerned that the directive may restrict its ability to take advantage of a growing market. Throughout the 1980s, the EC has represented a strong growth market for U.S. television entertainment primarily because of the large increase in the number of channels. Available airtime is expected to increase over 60 percent by the mid-1990s. Although there are few reliable statistics covering programming, it is estimated that in 1988 U.S. broadcasting revenues abroad totaled between $3.5 billion and $4.0 billion, with the EC accounting for about $1.5 billion to $2.0 billion.

At present, it is difficult to determine the effect of the local content requirement on U.S. industry. First, it is not legally binding; certain countries such as Portugal, which relies heavily on Brazilian programs, will most likely ignore the provision. Also, some European broadcasters may be reluctant to conform with the content requirement. Certain broadcasters have voiced concerns that government bureaucrats are making programming decisions. New media entrants (EC-owned as well as U.S.-owned) and private stations in particular could risk a decline in competitiveness should they replace less expensive U.S.-produced programs with more expensive EC programs. It is also possible that EC firms will be unable to satisfy an increased demand for EC-produced programs. (In fact, the proliferation of new channels has also brought into question the ability of U.S. companies to fulfill even a 50-percent quota in the future.) Estimates of current American programming on European airtime vary widely, since some countries rely on U.S. programs for over 50 percent of their transmission time, whereas other countries broadcast a much smaller portion. The French Government estimates that U.S.-made programs occupy less than 40 percent of the EC's broadcast time.

U.S. officials condemned the local content requirement soon after the directive was adopted. A trade panel of the House Committee on Ways and Means drafted a resolution requesting the administration to "take all appropriate and feasible action under its authority," including possible action under section 301. EC Commission President Jacques Delors, anticipating U.S. reaction, stated on October 2 that "we have the right...to maintain our traditions. There is no one European culture, but several. Each country should be able to defend its own." Nonetheless, United States Trade Representative Carla Hills criticized the directive as outright protectionism hiding behind a cultural argument. She added that U.S. concerns grew in response to a recent announcement that the EC has pledged subsidies to local producers and writers.

The administration is expected to ask the EC to clarify how the quota will be implemented including, for example, whether the content rule will be applied by a member state on total airtime by network, or on prime time only. If bilateral consultations are unsuccessful, the administration has indicated that it will request a GATT dispute settlement panel to resolve the issue.

European Community Semiconductor Policies Raise Concerns in the United States

Recent European Community (EC) actions regarding integrated circuits have raised eyebrows among U.S. industry and government leaders and added tension to the U.S.-EC trading relationship. This high-technology row centers around two sets of EC policies: a new origin rule for semiconductors and measures designed to prevent foreign firms from evading antidumping duties. U.S. leaders believe that both adversely impact U.S. firms and violate principles of fair trade.

The new semiconductor origin rule was announced in early February 1989. It requires that chips be diffused in Europe in order to be designated European in origin. Diffusion is that part of the assembly process during which the chip is given its functional capabilities, or "intelligence"; it is the single most complex operation in the manufacture of a chip and typically takes place in the manufacturer's home country. Under EC guidelines, origin is determined by the location at which the "last substantial process or operation" takes place; the new origin rule simply designates diffusion as the last substantial process. Prior to issuance of this new guideline, a semiconductor could be considered European if it were simply assembled or tested in the EC.

The second area of contention involves the EC's use of anticircumvention measures to enforce antidumping duties. Antidumping duties are imposed on products determined to have been dumped, i.e., sold at a price below the cost of production or below the product's home-market price. In an attempt to avert such duties on its exports to the EC, Japan began to establish screwdriver (assembly) plants in Europe.

The EC's anticircumvention rules are designed to prevent Japanese firms from avoiding dumping penalties by using such plants. One of these rules, the so-called screwdriver rule, states that a finished product containing 60 percent or more of its components (by value) from the country subject to antidumping duties is considered to be a product of that country. Therefore, even products assembled or produced within the EC may be subject to antidumping penalties. At Japan's request, a dispute settlement panel was established in October 1988 by the GATT, the 96-nation body that sets and monitors rules of international trade, to determine whether the EC's anticircumvention rules violate GATT principles. A panel report containing the GATT's determination in this dispute is expected before the end of the year.

U.S. semiconductor industry and government officials believe that the EC's rule of origin and anticircumvention policies have had a damaging impact on the U.S. chip industry. First, since the new origin rule makes a designation of EC-origin for chips harder to achieve, U.S. producers are faced with a troubling set of options: conduct the diffusion operation in Europe or face the EC's 14 percent tariff on imported chips.

Either course can be expensive. A semiconductor fabrication plant reportedly costs between $250 million and $400 million to construct and can involve as many as 3,000 jobs. On the other hand, adding 14 percent to the cost of a non-EC origin chip significantly reduces its price competitiveness. Neither the United States nor Japan applies levies to foreign-built chips.

The EC's rule-of-origin and anticircumvention policies have also harmed the U.S. semiconductor industry in a second, more complex way, industry and government officials believe. Semiconductor industry representatives recently testified before Congress that Japanese firms, concerned about the threat of stiff EC dumping duties, have been replacing U.S. semiconductors with EC-origin chips in electronic goods, such as printers and typewriters to ensure a "safety margin" of EC content. One industry representative cited two instances of American semiconductor manufacturers losing six-figure contracts with Japanese firms involved in EC antidumping cases regarding their printers, and at least five instances of American firms being asked to locate (or present plans to locate) fabrication facilities in the EC.

United States Trade Representative Carla A. Hills has also entered the fray. She recently accused the EC of "manipulating" rules of origin so as to favor foreign investment in EC facilities as well as to buoy the sales of European semiconductor producers. Hills pressed the issue further in her mid-September trip to Europe, specifically chiding the EC for what she termed its lack of a "clear and nondiscriminatory" origin rule for circuit boards.

Some movement of firms to establish fabrication plants in the EC does seem to exist. The Intel Corp., a leading U.S. semiconductor manufacturer, has announced plans to establish a plant in the EC. Further, the Sony Corp. recently announced that it is considering establishing a European plant, joining Fujitsu Ltd. and the Toshiba Corp., which had previously made statements to the same effect. EC trade officials insist that their policies are not designed to discriminate against non-EC products nor compel investment in Europe, arguing that if U.S. semiconductor companies feel forced to establish

facilities in Europe, their decisions are based on fear rather than on fact. The officials also dismiss allegations that "local content" requirements exist in the application of EC anticircumvention law. They maintain that their anticircumvention guidelines merely require 40 percent of a finished product to consist of nondumping country components, not necessarily EC-origin components. The officials further emphasize that EC antidumping policy is product-specific, that is, it has no purpose other than to provide a remedy for European firms facing injury as the result of dumping practices by competing foreign firms.

Resolving these fractious issues is not likely to be easy. An effort to reach an accommodation on one issue will be made in mid-October, however, when U.S. officials will meet with EC Commission representatives in Brussels to hold technical-level discussions on what the United States contends is the "forced investment" goal underlying the new semiconductor origin rule.

In spite of these bilateral consultations, the United States believes that negotiating a multilateral understanding on origin rules in the GATT-sponsored Uruguay Round of trade talks represents the best way to achieve its dual aims: resolve the current dispute over these policies and forestall future controversies of a similar nature. Accordingly, the United States has submitted a proposal to the GATT's Negotiating Group on Non-Tariff Measures calling for harmonization of origin rules. This proposal urges that all such rules clearly state what criteria confer origin rather than merely identifying those that do not. It also asks all signatory countries to submit a description of their origin rule regulations to the GATT within 90 days of the agreement taking effect. Changes to rule of origin policies by any country would have to be reported to the GATT at least 120 days prior to adoption of the change. (For this U.S. proposal, see also "Uruguay Round Proposals Being Submitted" earlier in this issue.)

U.S. Access to the Japanese Construction Market Still Limited

More than a year following the May 1988 bilateral arrangements (known as the "major projects arrangements") to open the Japanese construction market to U.S. participation, the value and number of contracts won by U.S. firms has been low (*IER*, May 1988). The May 1988 arrangements established non-discriminatory procedures covering an estimated $17 billion in construction work on 14 projects (out of a total market of approximately $275 to $300 billion per year). To date, U.S. companies have won or jointly won eight contracts under the agreement. As of early September, nine U.S. firms had been granted construction licenses (3 single, 6 joint).

The U.S. Government and industry have repeatedly notified the Japanese of their concerns about the operation of the designated bidder system, collusive bidding ("dango"), difficulties in obtaining quotes for subcontractors, prerequisites to form consortia to bid on major projects, the requirement for previous experience in Japan, discriminatory access to project information and the system of in-house design. Many of these concerns were raised once again during bilateral talks on October 11 and 12. In addition, the United States presented a five-point proposal addressing the issue of collusive behavior by Japanese firms. Continuing talks will be held in Washington on November 8 and 9.

The issue of access to Japan's construction market will be spotlighted on November 21, when the Office of the United States Trade Representative is required to submit a section 301 report to Congress with a determination on whether government barriers to construction in Japan exist, whether the barriers harm U.S. companies, and whether retaliation is appropriate. (Congressional concerns over the lack of success under the arrangements and the failure to address "dango" led to the inclusion of section 1305 of the Trade Act of 1988, requiring the Office of the United States Trade Representative to initiate a section 301 investigation into construction barriers in Japan.) The decision on how the question of retaliation is handled will hinge on USTR's interpretation of the scope of the 1988 agreement. If USTR takes a narrower view of the language in the statute and evaluates Japan's compliance with the letter of the 1988 agreement, the report will most likely not recommend retaliation. However, if USTR takes a broader view, which it is expected to do, and includes such practices as "dango" in its investigation, the potential for finding a violation is greater.

The United States has been pressing the Japanese for a greater role in the construction of the Kansai airport project, which was covered under the May 1988 arrangements. U.S. companies have been awarded approximately $16 million in contracts for goods and consulting services. The U.S. industry continues to allege that the main obstacles to U.S. participation on this project are Japan's nontransparent bid and tender system and anticompetitive practices such as dango. Although Japanese firms are allowing U.S. companies to join consortia, according to industry sources, usually invitations are extended only to those firms that do not pose a threat to Japanese firms or those that have not made a long-term commitment to the Japanese market.

Recently, U.S. attention was focused on the new Nippon Telegraph and Telephone (NTT) headquarters building. This multimillion dollar building is covered under the May 1988 accord, and the United States has notified the Japanese that the project is considered a litmus test of the openness of the Japanese construction market. The United States had expressed concerns about the need for U.S. firms to form consortia in order to bid on the project. Japanese intentions to

conduct the design work on the project in-house were also viewed as obstacles to U.S. participation. Such practice would exclude U.S. architects and engineers from the design work, and give Japanese companies an advantage on subsequent phases of the project. In addition, the Japanese had indicated that the procurement of construction-related goods for the project would not be subject to the open procedures established under the agreement because the prime contractor, rather than NTT would be conducting the procurement.

U.S. concerns about the NTT building were raised during Secretary of Commerce Mosbacher's visit to Japan during September 12-15. NTT President Haruo Yamaguchi subsequently sent Secretary Mosbacher a letter addressing these issues. In the letter, the Japanese assured the United States: (1) that the formation of consortia was likely, but not required; (2) although the procurement of goods would be handled by the prime contractor, it would be done in an open manner; and (3) the design work would be let in a competitive bid. Construction of the 30-story building was expected to begin at the end of this year and be completed by the end of 1992, however, the project will most likely be delayed because of both these recent developments and problems in complying with Japan's sunshine law.

It appears that, although the latest flare-up over the construction issue has been resolved for the moment, the overall problems for U.S. firms attempting to win contracts in Japan (both on projects that are covered under the agreement and those that are not) will continue to simmer, even after the 301 report is submitted.

The United States and Japan Outline Structural Impediments Initiative Issues

The United States and Japan will enter a second round of Structural Impediments Initiative ("SII") talks on November 6 and 7 in Washington, DC. The Bush administration proposed SII in late May to address the structural and institutional characteristics underlying the endemic U.S.-Japan trade imbalance. This summer Japan agreed to SII talks to "identify and solve structural problems in both countries that stand as impediments to trade and balance of payments adjustments with the goal of contributing to the reduction of payments imbalances." The first round of SII consultations took place on September 6 and 7 in Tokyo. The talks are scheduled to occur bimonthly with a common assessment progress report due next March or April and a final joint report due by July 1990 (*IER*, October 1989).

The U.S.-SII team is led by Richard McCormack, Under Secretary of State for Economic and Business Affairs, Charles Dallara, Assistant Secretary of Treasury for International Affairs, and S. Linn Williams, Deputy United States Trade Representative, and includes representatives from the departments of Commerce, Justice, Agriculture, and Labor and the Council of Economic Advisers. The Japanese delegation is headed by the ministries of Foreign Affairs, International Trade and Industry ("MITI"), and Finance.

During the September 6 and 7 consultations, the United States identified six characteristics of Japan's economy that serve as structural barriers to foreign access to Japan's markets: (1) a high savings rate but comparatively low investment rate, particularly low public investment in infrastructure; (2) inefficient land-use policies, which allegedly cause inflated land and housing prices; (3) a complex and inefficient distribution system, and government laws and regulations that inhibit competition (such as the Large Scale Retail Stores Law); (4) Japanese pricing practices, in which nonmarket prices are used to underwrite prices in export markets; (5) financial keiretsu (corporate groups which include vertical and horizontal linkages); and (6) exclusionary business practices, including bidrigging, lax antitrust policies and enforcement. Japanese officials contend that the structural characteristics of their economy are deeply rooted in Japanese history and social culture and therefore are difficult to address through negotiations. The Japanese raised seven characteristics of the U.S. economy which, they say, inhibit U.S. competitiveness: (1) a low savings rate and excessive consumption; (2) low corporate plant and equipment investment and a near limit capacity utilization rate; (3) corporate behavior which emphasizes short-term profits, especially among hostile takeovers and leveraged-buy-outs; (4) government regulations concerning export controls and government "buy American" procurement clauses; (5) a low level and delayed application of research and development; (6) the lack of export promotion; and (7) inadequate workforce training and education.

The United States has not assigned specific priorities to its six topics. U.S. negotiators plan to present additional data to reinforce their position on these points during the upcoming talks. In general, the United States will encourage the Japanese to develop concrete solutions to its structural problems that will benefit Japanese consumers and help reduce the bilateral $50-billion trade imbalance. The Japanese will discuss their seven issues again in November and hope that both countries can come to a mutual perception of these issues. Japan also believes that each side should try its best to effectively implement the economic policies and trade behavior that the other suggests.

At the same time, Congress is carefully watching the SII talks. Senator Max Baucus (D-MT), Chairman of the Senate Finance Subcommittee on International Trade, has called the SII consul-

tations "the most important trade negotiations that the United States has ever entered into." Senator Baucus and Representative Frank Guarini (D–NJ), a member of the House Ways and Means Subcommittee on International Trade, will introduce legislation that would compel the Office of the United States Trade Representative ("USTR") to initiate a Super 301 case against Japan if the SII talks do not produce an agreement by September 1, 1990, providing for the substantial elimination of the trade barriers and trade distorting practices in Japan that are the subject of the SII. In addition, the legislation would require the USTR to initiate a Super 301 case against Japan if, after 18 months the agreement has not been implemented or U.S. exports to Japan have not increased. (U.S. and Japan trade officials have noticed this proposed legislation, but have not commented on it.) On November 6 and 7, the days that the next round of SII consultations will take place in Washington, the Senate Finance Subcommittee on International Trade will hold hearings on the SII. Private sector and nongovernmental groups, including representatives from the National Education Association, Chamber of Commerce, and American Electronics Association, will testify at these hearings.

Back in May, the United States proposed the SII with high hopes of success. Now that the talks are in full swing, U.S. negotiators will stress the urgency for visible results. But since the Japanese are emphasizing that SII issues will require longer term perspectives, the two sides interests may be difficult to reconcile.

New U.S.-Mexico Understanding Signed at Summit

For many years, Mexico resisted closer economic ties with the United States for fear that it would be overwhelmed by U.S. goods and investment. Although relations improved significantly with Mexico's accession to the GATT in 1986, no bilateral mechanism existed for resolving differences with the United States. In November 1987, the two countries embarked on a course toward improved commercial relations by agreeing to enter into consultations under the "Understanding Concerning a Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations" (the Framework Understanding). Another major step to further facilitate bilateral trade and investment and to promote predictability and certainty in both countries' marketplaces was taken at the recent U.S.-Mexico presidential summit.

During the early October state visit to the United States by Mexican President Carlos Salinas de Gortari, Ambassador Carla A. Hills, the United States trade representative (USTR), and Dr. Jaime Serra Puche, the Mexican commerce secretary, concluded discussions that were started during the August 1989, annual meeting of the U.S.-Mexican Binational Commission. Agreements stemming from these discussions portend a deepening and broadening of the U.S.-Mexican commercial relationship.

On October 3, President Salinas and President Bush signed an "Understanding Between the Government of the United Mexican States and the Government of the United States of America Regarding Trade and Investment Facilitation Talks" (the Facilitation Understanding). The Facilitation Understanding mandates bilateral trade and investment negotiations to be carried out in a manner consistent with the GATT and with the multilateral negotiations currently being conducted in the Uruguay Round of trade talks. An "action plan" that accompanied the Facilitation Understanding outlined the process of analysis and negotiations, and established a deadline for the announcement of the initial results in the summer of 1990. The negotiations are to be completed, in phases, over the next several years.

The Facilitation Understanding between Mexico and the United States represents a significant milestone for bilateral commercial relations in three ways. First, talks under the earlier Framework Understanding were held only as part of a consultative and dispute settlement mechanism. The mandate of the Facilitation Understanding goes beyond that of the Framework Understanding by providing for comprehensive trade and investment negotiations.

Second, previous attempts by the Government of Mexico to engage the United States in discussions on a sectoral basis have failed. Negotiations called for under the Facilitation Understanding, however, will focus on specific product areas, as well as cross-sectoral issues (such as tariffs, nontariff barriers to market access, investment, intellectual property rights, technology, services, market restraints, distribution problems and trade remedy actions). Although the negotiations will cover product areas, officials stress that they are not intended as a vehicle for reaching a "free trade area agreement" with Mexico. The topics to initially be covered in the negotiations will be decided through bilateral consultations to be concluded in November.

Finally, the Facilitation Understanding marks a major departure in the methodology used to form the body of information used by both countries during negotiations. Rather than assemble for talks after each national team has independently collected and analyzed trade and investment data, binational teams will conduct intensive information gathering, analysis, and review of the data prior to the initiation of actual negotiations.

Although Mexico and the United States have launched a new forum for bilateral discussions under the Facilitation Understanding, both countries also acknowledged the progress made under the earlier Framework talks, and voiced a desire to continue those efforts. To that end, the activi-

ties of various work groups that were established for consultations under the Framework Understanding (covering agriculture, industry (steel and textiles), services (motor carrier and auto insurance), tariffs, investment and intellectual property rights, and electronics) will continue parallel with the Facilitation talks.

In addition to signing the new Understanding, Ambassador Hills and Secretary Serra also announced that agreements had been reached on an extension and expansion of Mexico's voluntary restraint agreement (VRA) covering steel exports to the United States, and on a bilateral consensus to eliminate trade-distorting practices in the steel sector. Following a series of consultations spanning the last several months, they also announced an improved and constructive atmosphere for working on bilateral intellectual property rights (IPR) issues. Mexico is currently on the Special 301 "priority watch list" of countries with inadequate IPR protection; the USTR will be reviewing the list in November. Finally, both countries reiterated their commitment to the mutually beneficial expansion of textile and apparel trade, with substantive changes in the trade relationship possible in the near future.

Will the New Debt Relief Agreement Attract a Flow of Funds into Mexico?

Mexican authorities hope that their widely hailed, recently concluded debt relief agreement with foreign banks will not only reduce the country's debt burden, but will also trigger sizable external financing for the Mexican economy. The accord—officials believe—will stimulate a flow of capital into the country; foreign investment will surge, and funds Mexicans hold abroad will come home.

The debt agreement between Mexico and a representative committee of its foreign creditor banks was concluded on July 23, 1989, marking the first breakthrough for the so-called "Brady Plan." This plan, unveiled in March 1989 (*IER*, June 1989), is the Bush administration's Third World debt strategy. Covering about $54 billion of Mexico's total foreign debt of more than $100 billion, the accord gives the creditors three options for reducing Mexico's debt burden: (1) a 35-percent reduction in the principal owed; (2) a reduction of interest from high variable rates to a fixed rate of only 6.25 percent; and (3) provision of new loans for 25 percent of debt outstanding. The agreement is preliminary; it must be still endorsed by Mexico's more than 400 individual creditor banks. This may take months or even years.

Nonetheless, some beneficial effects of this preliminary accord are already apparent. Immediately following the announcement a surge of optimism was manifest in prices soaring on the Mexican stock market. New business confidence enabled the authorities to reduce the high interest rates they had to impose earlier in an attempt to stem massive capital flight from the country. (Rates on Mexico's Treasury bills dropped sharply from 57 percent to 37 percent in July.) An inflow of private capital into Mexico in the wake of the agreement had also been reported, including repatriation of Mexican-owned funds.

Recognizing the economy's dependence on external financing, the Mexican Government began to ease its highly restrictive foreign investment policy in the mid-eighties by applying existing regulations "in a flexible manner." More recently, officials admitted that the Mexican position in the matter of foreign investments has, indeed, turned around. Instead of restraining the inflow of foreign capital, which Mexicans had equated in the past with foreign political and economic domination (mostly by the United States, the principal investor in Mexico,) they are now actively seeking investment from abroad.

In May, officials formalized their changed position by liberalizing regulations on foreign investment (*IER*, July 1989). Since Mexico's restrictive foreign investment legislation had been an enduring issue of contention between the United States and Mexico, the new regulations significantly improved bilateral relations between the two countries.

Nonetheless, the long-term prospects for a foreign investment surge in Mexico and of a massive repatriation of Mexican capital remain uncertain. The longstanding precarious state of the Mexican economy (*IER*, February 1989) and resultant social and political tensions might deter investors from taking advantage of a more welcoming atmosphere. It must be noted in addition, that the initial euphoria following the debt relief agreement has already lessened somewhat. Critics began to raise questions about the accord's workability, specifically the readiness of creditor banks to extend new financing to Mexico. (The ability of obtaining fresh credits is considered a more desirable option for Mexico under the accord than swapping existing debt for new bonds, even if these bonds carry a lower interest rate or a discount on the value of the original loan.) It is believed that both foreign investors and Mexican investors in foreign countries would take their cue from the large banks' willingness to make new loans.

According to an 1988 estimate of the Morgan Guarantee Trust Co., Mexicans hold some $84 billion abroad. A few days after the July debt accord, the Government of Mexico instituted a tax amnesty program for those "sacadolares" (Mexicans who keep their assets abroad) who return their investments from foreign countries. At the same time, authorities announced penalties, on grounds of tax evasion, against those citizens who decide against repatriation. Officials hope that the incentives and penalties combined will succeed in bringing capital back.

However, many think otherwise. Skeptics argue that most "sacadolares" still lack sufficient confidence in the domestic economy, therefore they will resist both incentives and intimidation. Pessimists also point out that not all Mexican flight capital is deposited in banks, thus is easily transferable; part of these funds already became rooted in a variety of direct fixed investments, mostly in the South of the United States.

Taiwan's Ban on Beef

When Taiwan authorities abruptly announced last month that all imports of beef would be halted, its major international suppliers were outraged. About 38,000 metric tons of beef were imported by Taiwan last year. Over 90 percent of that amount was supplied by the United States, Australia, and New Zealand. Taiwan's Board of Foreign Trade said the import prohibitions on beef were in response to complaints from local farmers that they cannot compete with the significantly cheaper imports. Imported beef in Taiwan costs an average of 50 percent less than the locally produced product. According to news accounts, the politically astute farmers threatened to drive their cattle through the streets of Taipei in protest unless the Board of Foreign Trade acted quickly to protect them from imports.

Following strong protests from the United States and Australia about the beef ban, Taiwan quickly moved to modify the measure and announced that it would lift the ban on high grade beef (ribs, sirloin, and rump) and beef carcasses. The embargo remains in effect for economy grades (beef shank, brisket, plate, flank, and round) which account for most of Taiwan's beef imports. The items of most concern to U.S. exporters are no longer embargoed. With repeal of the import prohibition on high grade beef, U.S. exporters are not greatly affected by the import ban.

U.S. beef exporters have tripled their shipments to Taiwan in 1989 over those of last year. Virtually all of the U.S. product was high-grade boxed beef (predominantly ribs and sirloin) targeted for hotels and restaurants.

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STATISTICAL TABLES

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Industrial production, by selected countries and by specified periods, January 1986–August 1989

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1986	1987	1988	1989 I	II	Feb.	Mar.	Apr.	May	June	July	Aug.
United States	1.1	3.8	5.7	2.2	3.1	-2.5	0.9	8.0	-0.8	2.6	0.8	3.4
Canada	.8	2.7	4.2	4.1	1.3	0	4.7	-0.9	0	0.9	-2.7	([1])
Japan	-.3	3.4	9.4	13.2	0	-19.3	88.0	-37.4	6.3	27.1	-22.9	33.6
West Germany	2.2	.2	3.1	10.3	4.1	-4.3	-6.3	22.8	-22.9	42.8	3.2	([1])
United Kingdom	2.3	3.4	3.8	-3.9	-4.2	-3.2	4.5	0	-14.4	3.4	23.3	([1])
France	.9	2.2	4.3	5.0	7.4	-10.2	-10.3	53.5	-19.1	11.3	([1])	([1])
Italy	3.8	2.6	5.9	-3.9	.2	19.2	-14.3	4.2	-8.0	21.7	4.2	([1])

[1] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, Oct. 6, 1989.

Consumer prices, by selected countries and by specified periods, January 1986–August 1989

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1986	1987	1988	1989 I	II	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
United States	1.9	3.7	4.1	5.4	6.4	7.2	5.1	6.1	8.1	7.0	2.0	2.9	0
Canada	4.2	4.4	4.0	5.2	6.3	7.6	5.7	6.3	4.0	9.7	8.0	4.0	3.2
Japan	.6	.1	.7	-2.2	9.8	-2.3	-3.5	7.3	23.4	7.2	-1.1	-2.3	-3.4
West Germany	-.2	.3	1.2	4.8	3.5	9.0	4.7	3.2	4.9	2.7	1.3	.8	1.0
United Kingdom	3.4	4.1	4.9	7.5	8.6	8.9	7.8	7.3	9.7	9.2	7.5	6.1	2.9
France	2.5	3.3	2.7	3.7	3.9	3.7	3.8	3.7	4.4	4.7	1.8	2.9	2.2
Italy	6.1	4.6	5.0	7.2	7.7	6.6	8.8	7.2	8.9	6.4	6.6	5.5	3.7

Source: *Economic and Energy Indicators*, U.S Central Intelligence Agency, Oct. 6, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1986–September 1989

(In percent)

Country	1986	1987	1988	1989 I	II	Mar.	Apr.	May	June	July	Aug.	Sept.
United States	7.0	6.2	5.5	5.1	5.2	5.0	5.2	5.1	5.2	5.2	5.1	5.2
Canada	9.6	8.9	7.8	7.5	7.6	7.5	7.7	7.6	7.3	7.4	7.3	([2])
Japan	2.8	2.9	2.5	2.4	2.3	2.4	2.3	2.4	2.2	([2])	([2])	([2])
West Germany	7.0	6.9	7.1	5.8	5.7	6.3	6.0	5.7	5.7	5.6	5.6	([2])
United Kingdom	11.2	10.3	8.3	7.0	6.5	6.9	6.6	6.5	6.4	6.3	6.2	([2])
France	10.6	10.8	10.5	10.0	9.9	10.4	10.3	10.3	9.9	10.0	10.0	([2])
Italy	7.5	7.9	7.9	7.6	7.8	([2])	7.8	([2])	([2])	([2])	([2])	([2])

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S.rate.
[2] Not available.

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S.Department of Labor, October 1989.

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Money-market interest rates,[1] by selected countries and by specified periods, January 1986–September 1989

(Percentage, annual rates)

Country	1986	1987	1988	1989 I	II	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
United States	6.5	6.8	8.0	9.6	9.5	9.2	9.5	10.1	9.9	9.6	9.2	8.7	8.8	8.8
Canada	9.2	8.4	9.6	11.7	12.3	11.3	11.7	12.2	12.4	12.3	12.3	12.2	12.3	12.3
Japan	5.0	3.9	4.4	4.2	4.3	4.2	4.2	4.2	4.2	4.3	4.5	4.8	4.8	5.1
West Germany	4.6	4.0	4.3	6.2	6.8	5.6	6.4	6.6	6.3	7.3	6.9	7.0	8.7	7.9
United Kingdom	10.9	9.6	8.9	13.0	13.4	13.1	13.0	13.0	13.1	13.1	14.2	13.9	13.9	([2])
France	7.7	8.1	7.9	8.9	8.7	8.6	9.1	9.1	8.5	8.9	8.8	8.9	9.0	9.7
Italy	12.6	11.2	11.0	12.3	12.5	11.8	12.3	12.9	12.5	12.5	12.7	12.9	12.7	([2])

[1] 90-day certificate of deposit.
[2] Not available.
Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, Oct. 16, 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, October 1989.

Effective exchange rates of the U.S.dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1986–September 1989

(Percentage change from previous period)

Item	1986	1987	1988	1989 I	II	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
Unadjusted:													
Index[1]	106.0	94.1	88.0	38.7	92.4	88.5	89.7	89.9	92.6	94.7	92.0	92.5	93.8
Percentage change	-16.5	-11.2	-6.5	1.2	1.6	.4	1.2	.2	2.7.	2.1	-2.7	.5	1.3
Adjusted:													
Index[1]	100.9	90.2	85.9	89.6	94.5	89.4	90.9	90.8	98.0	94.8	92.1	92.6	93.8
Percentage change	-17.1	-10.6	-4.8	1.5	1.3	.7	1.5	-.1	7.2	-3.2	-2.7	.5	1.2

[1] 1980-82 average=100.
Note.—The foreign-currency value of the U.S.dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S.price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, Oct. 10, 1989.

Trade balances, by selected countries and by specified periods, January 1986-August 1989

(In billions of U.S.dollars, f.o.b.basis, at an annual rate)

Country	1986	1987	1988	1989 I	1989 II	Feb.	Mar.	Apr.	May	June	July	Aug.
United States[1]	-137.5	-152.2	-119.5	-111.2	-103.4	-112.8	-114.0	-99.6	-121.2	-96.0	-98.4	-128.4
Canada	7.1	8.3	7.2	8.0	3.2	4.8	3.6	0	7.2	2.4	10.8	(3)
Japan	92.5	96.2	94.6	97.6	78.8	120.0	79.2	90.0	68.4	76.8	73.2	(3)
West Germany[2]	52.6	65.6	72.8	80.8	67.2	81.6	75.6	72.0	56.4	74.4	68.4	(3)
United Kingdom	-12.6	-16.9	-36.0	-42.0	-38.4	-45.6	-34.8	-44.4	-33.6	-37.2	-48.0	-44.4
France	.1	-5.2	-5.8	-2.4	-8.4	-1.2	0	-.7	-12.0	-6.0	-14.4	(3)
Italy	-2.0	-8.7	-10.0	-16.0	-12.4	-12.0	-14.4	-15.6	-18.0	-7.2	-8.4	(3)

[1] 1986, exports, f.a.s.value, adjusted; imports, c.i.f.value, adjusted.Beginning with 1987, figu es were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.
[2] Imports, c.i.f value, adjusted.
[3] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, Oct. 6, 1989, and *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, Oct. 17, 1989.

U.S.trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1986-August 1989

(In billions of U.S.dollars, customs value basis for imports)

Country	1986	1987	1988	1989 I	1989 II	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Commodity categories:													
Agriculture	4.5	7.0	13.9	1.6	1.4	1.4	1.5	2.0	1.6	1.3	1.3	1.2	.9
Petroleum and selected products (unadjusted)	-31.8	-39.5	-38.1	-3.2	-4.0	-3.2	-2.9	-3.4	-3.8	-4.4	-3.9	-3.9	-3.9
Manufactured goods	-134.3	-146.1	-146.7	-8.4	-7.8	-8.6	-9.5	-7.2	-6.7	-8.4	-8.4	-9.3	-10.2
Selected countries:													
Western Europe	-28.2	-27.9	-17.2	-.08	-.02	(2)	-.6	.3	.2	-.08	-.2	-.8	-.7
Canada[3]	-23.0	-11.5	-12.6	-.9	-.5	-1.8	-.8	-.2	-.4	-.7	-.5	-.4	-1.2
Japan	-55.3	-58.0	-55.5	-4.1	-4.0	-3.5	-4.6	-4.2	-3.9	-4.3	-3.9	-4.0	-3.9
OPEC (unadjusted)	-8.9	-13.7	-10.7	-1.0	-1.6	-1.1	-.8	-1.0	-1.3	-1.8	-1.6	-1.7	-1.8
Unit value of U.S.imports of petroleum and selected products (unadjusted)[4]	$15.02	$18.12	$14.19	$15.17	$17.96	$14.46	$15.08	$15.97	$17.83	$18.40	$17.67	$17.12	$16.14

[1] Exports, f.a.s.value, unadjusted.1986-88 imports, c.i.f.value, unadjusted; 1989 imports, customs value, unadjusted.
[2] Less than $50,000,000.
[3] Beginning with February 1987, figures include previously undocumented exports to Canada.
[4] Beginning with 1988, figures were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f.value.

Source: *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, Oct. 17, 1989.

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